

深圳高速公路股份 - H [0548.HK]

将要绽放光芒的宝石;首次覆盖并予买入评级

我们相信现在是市场重新关注深圳高速公路股份（深高速）的时候。深高速正在转型，公司的资产规模庞大，相信将释放更多增长潜力。虽然核心的收费公路业务继续保持增长势头，但我们预计短期的催化剂将来自深圳市中心的房地产项目—梅林关更新项目的价值释放（估计每股净资产值：人民币 2.67 元）。公司也正在扩大环境业务，这为公司带来传统收费公路业务所没有的增长潜力。中期而言，随着公司的深圳外环高速公路项目落成，公司将完成在粤港澳大湾区的完整投资布局。我们首次覆盖该股份并给予买入评级，根据分类加总估值法得出的目标价为 9.16 港元。目前的股息收益率超过 4%，梅林关更新项目带来的巨大增长潜力也有助减低股价下行风险。

投资亮点

- **收费公路：新项目带来明确的收入贡献。**由于政府向深高速回购四条收费公路，深高速在 2014 年和 2015 年获得巨额赔偿。深高速并没有闲置这笔资金，并继续投资新的收费公路项目，以加强业务组合。目前，我们预计武黄高速、益常高速公路和深圳外环高速公路都将在 2017 年至 2019 年带来明显的收益贡献。同时，视乎深圳市政府回购三个项目的最终决定，深高速在 2019 年也可能录得 16 亿元人民币的出售收益。
- **梅林关项目：盈利能力极高的房地产项目。**作为深圳政府补偿方案的一部分，深高速取得了一块位于梅林关的土地。这是深高速及其母公司深圳国际[0152.HK]共同拥有的房地产项目。参考深圳国际处理前海地块的手法，我们预计双方将出售该项目的部分权益予开发商，并有望录得巨额利润。即使政府调控房市和土地增值税高达 60%，我们仍预计该项目对深高速而言十分有价值，其净资产值可能高达每股人民币 2.67 元。
- **环境业务：额外的增长动力。**上述补偿收入的另一个用途是环境业务上的投资。考虑到深高速核心业务存在的局限性，我们认为这投资是正确的。在 2017 年 5 月，深高速收购德润环境 20% 权益，德润环境在重庆的水务和垃圾发电市场拥有强大的份额。这次收购有助于深高速多样化其业务，同时带来显著的盈利。我们预计，该业务占税前盈利的比例将从 2017 年的 5.5% 上升至 2018 年的 11.0%。
- **核心业务的估值合理；上升空间取决于梅林关更新项目。**我们的分类加总估值分析反映，公司目前的股价已经反映了核心业务的价值，但我们确实看到梅林关更新项目的收入贡献有大增的空间。若梅林关更新项目在下半年取得进展，将成为短期内的催化剂。
- **风险：**（1）车流量低于预期；（2）梅林关更新项目的贡献低于预期；（3）新收费公路政策存在不确定性；（4）人民币贬值，对海外投资者的股息产生不利影响。

截止12月底止年度	FY2015	FY2016	FY2017E	FY2018E	FY2019E
收入(百万元人民币)	3,421	4,532	4,842	4,996	5,567
同比变动	-5.5%	32.5%	6.8%	3.2%	11.4%
税后净利润(百万元人民币)	1,553	1,169	1,436	1,561	1,686
同比变动	-29.0%	-24.7%	22.8%	8.7%	8.0%
每股盈利(人民币)	0.71	0.54	0.66	0.71	0.77
同比变动	-29.2%	-24.5%	22.7%	8.7%	8.0%
股本回报率	13.2%	9.5%	11.3%	11.5%	11.5%
市盈率	8.5x	11.3x	9.2x	8.5x	7.8x
股息收益率	5.6%	3.6%	4.3%	4.7%	5.1%

来源：公司，中国银河国际证券研究部

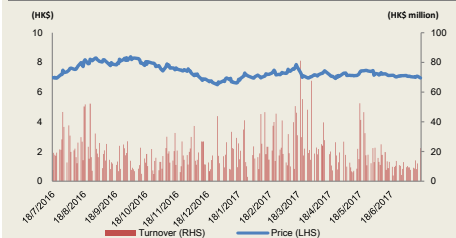
中国基建行业 收费公路

买入

收盘价：6.96港元（2017年7月17日）

目标价：9.16港元（+31.6%）

股价表现



来源：彭博

市值	25.04亿美元
已发行股数	21.808亿股
核数师	Ernst & Young
自由流通量	40.2%
52周交易区间	6.23-8.17港元
三个月日均成交量	264万美国
主要股东	深圳国际（50.9%）

来源：公司，彭博

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主要财务指标

损益表 (百万元人民币)						资产负债表 (百万元人民币)					
	FY2015	FY2016	FY2017E	FY2018E	FY2019E	Y2015	FY2016	FY2017E	FY2018E	FY2019E	
收入	3,421	4,532	4,842	4,996	5,567	货币资金	6,422	5,664	3,806	5,008	6,642
经营开支	(1,679)	(2,533)	(2,461)	(2,547)	(2,839)	应收账款	660	545	742	586	894
销售、一般及行政开支	(148)	(157)	(127)	(136)	(152)	存货	649	663	611	708	763
其他经营性项目	(743)	9	(60)	(65)	(72)	其他流动资产	2,013	2,218	1,828	1,550	2,188
投资收入	1,155	434	431	560	581	总流动资产	8,424	8,000	5,503	6,679	8,699
融资成本	(371)	(639)	(751)	(771)	(885)	物业、厂房及设备	1,156	1,028	883	806	761
经营利润	1,635	1,645	1,873	2,037	2,200	长期股权投资	1,983	4,703	8,936	8,584	8,248
其他非经营性项目	37	(23)	11	11	11	无形资产	8,424	8,000	5,503	6,679	8,699
税前净利润	1,672	1,622	1,884	2,048	2,212	其他非流动资产	11,683	10,655	14,124	13,486	12,231
所得税	(177)	(306)	(377)	(410)	(442)	非流动资产合计	23,246	24,385	29,446	29,554	29,938
税后净利润	1,553	1,169	1,436	1,561	1,686	总资产	31,671	32,385	34,949	36,234	38,637
少数股东权益 (除税后)	(58)	147	71	78	84	应付账款	182	220	171	233	217
每股盈利 (人民币)	0.71	0.54	0.66	0.71	0.77	一年内到期的非流动负债	1,836	1,582	1,125	125	125
每股派息 (人民币)	0.34	0.22	0.26	0.29	0.31	其他流动负债	2,092	2,983	2,807	2,827	2,857
EBITDA	2,909	3,457	3,862	4,050	4,435	总流动负债	4,111	4,784	4,103	3,186	3,199
EBIT	2,043	2,262	2,636	2,819	3,097	长期借款	4,892	5,526	7,711	8,942	10,287
收入增长	-5.5%	32.5%	6.8%	3.2%	11.4%	其他非流动负债	7,707	7,363	7,397	7,303	7,203
经营利润增长	12.1%	0.6%	13.8%	8.7%	8.0%	非流动负债合计	12,599	12,889	15,108	16,245	17,490
净利润增长	-29.0%	-24.7%	22.8%	8.7%	8.0%	总负债	16,710	17,673	19,210	19,431	20,689
每股盈利增长	-29.2%	-24.5%	22.7%	8.7%	8.0%	归属于公司股东权益合计	12,369	12,674	13,630	14,617	15,678
EBITDA利润率	85.0%	76.3%	79.8%	81.1%	79.7%	少数股东权益	2,592	2,037	2,108	2,186	2,270
EBIT利润率	59.7%	49.9%	54.4%	56.4%	55.6%	总股本	14,961	14,711	15,739	16,803	17,947
经营利润率	47.8%	36.3%	38.7%	40.8%	39.5%	总股本及负债	31,671	32,385	34,949	36,234	38,637
净利润率	45.4%	25.8%	29.7%	31.2%	30.3%	比率	FY2015	FY2016	FY2017E	FY2018E	FY2019E
现金流量表 (百万元人民币)	FY2015	FY2016	FY2017E	FY2018E	FY2019E	股本回报率	13.2%	9.5%	11.3%	11.5%	11.5%
税后净利润	1,553	1,169	1,436	1,561	1,686	资产回报率	6.1%	3.7%	4.4%	4.5%	4.7%
加: 折旧及摊销	899	1,231	1,265	1,262	1,363	净资产/股本	2.0%	9.8%	32.0%	24.2%	21.0%
营运资金变动	(431)	(578)	665	239	(249)	EBITDA利息覆盖倍数	7.8x	5.4x	5.1x	5.3x	5.0x
其他项目	(249)	304	392	288	388	应收账款周转天数	84	60	49	49	49
经营性现金流	1,772	2,127	3,758	3,350	3,187	存货周转天数	94	129	95	95	95
购买物业、厂房及设备以及附属 (资本开支)	(1,414)	(2,380)	(6,506)	(1,717)	(2,077)	应付账款周转天数	52	35	28	30	30
出售	1,572	0	-	-	-	流动比率	2.05x	1.67x	1.34x	2.10x	2.72x
投资收入	17	36	606	913	917	速动比率	1.89x	1.53x	1.19x	1.87x	2.48x
其他投资性项目	409	(185)	17	-	-	估值	FY2015	FY2016	FY2017E	FY2018E	FY2019E
投资性现金流	584	(2,530)	(5,883)	(804)	(1,160)	市盈率	8.5x	11.3x	9.2x	8.5x	7.8x
股息及利息	(1,549)	(1,303)	(1,231)	(1,345)	(1,509)	市净率	1.07x	1.04x	.97x	.90x	.84x
负债变动	(2,467)	(101)	1,728	231	1,345	EV/EBITDA	9.4x	7.1x	5.8x	5.3x	4.8x
其他财务项目	6,586	(125)	(229)	(229)	(229)	股息收益率	5.6%	3.6%	4.3%	4.7%	5.1%
融资性现金流	2,571	(1,529)	267	(1,343)	(393)						
总现金流	4,926	(1,932)	(1,858)	1,202	1,634						
自由现金流	2,158	(31)	(2,600)	1,897	1,360						
收入 (百万元人民币)	FY2015	FY2016	FY2017E	FY2018E	FY2019E						
收费公路				3,014	3,680	4,127	4,418	4,923			
其他				407	852	715	578	644			
总数	3,421	4,532	4,842	4,996	5,567						
分部毛利润 (百万元人民币)	FY2015	FY2016	FY2017E	FY2018E	FY2019E						
收费公路				1,595	1,817	2,197	2,293	2,567			
其他				184	156	160	165	170			
总数	1,778	1,973	2,357	2,458	2,738						
分部毛利润率 (百万元人民币)	FY2015	FY2016	FY2017E	FY2018E	FY2019E						
收费公路				52.9%	49.4%	53.2%	51.9%	52.2%			
其他				45.2%	18.3%	22.4%	28.6%	26.4%			
总数	52.0%	43.5%	48.7%	49.2%	49.2%						

来源: 公司, Capital IQ, 中国银河国际证券研究部

估值：核心业务估值合理；梅林关项目带来增长动力

我们的分类加总估值分析反映，由于梅林关更新项目有很高的价值释放潜力，深高速目前的估值十分吸引。我们的分类加总估值模型由两部分组成：（1）股息贴现模型，用于估算投资者可以从核心业务中收取的股息；（2）梅林关更新项目的贴现现金流模型。

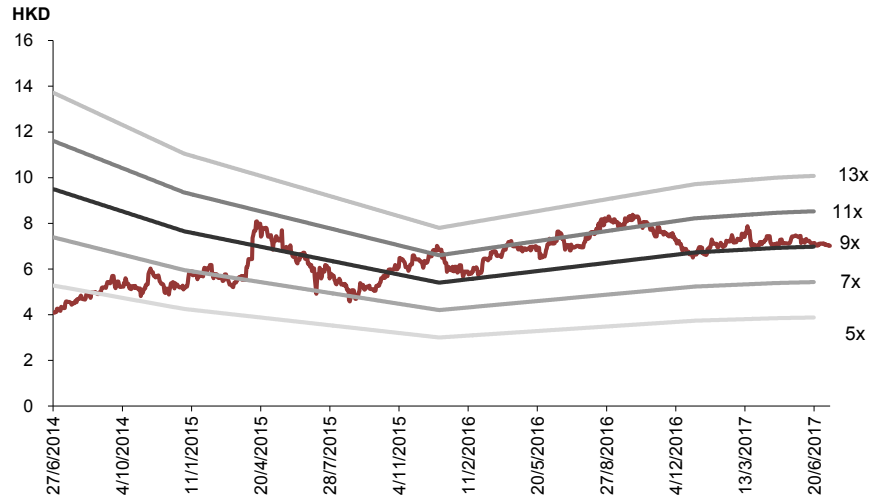
在第一部分，股息贴现模型反映深高速核心业务的价值为每股5.30元人民币。在第二部分的分析结果反映，梅林关更新项目的价值可高达每股3.34元人民币，但鉴于项目执行进度存在不确定性，我们认为给予20%的折让属于合理。

因此，我们估计公司的公允价值为每股7.97元人民币，或每股9.16港元，若根据当前的股价6.96港元，潜在上升空间达到31.6%。我们明白到一些投资者可能会抱持观望态度，因为目前的股价代表核心业务有较高估值，同时梅林关更新项目存在不确定性。不过我们认为，当深高速和深圳国际觅得开发项目的合作伙伴并向其出售权益时，价值将得到展现。首次覆盖并予买入评级。

图1：我们给予深高速的估值

股息贴现模型—基本预测	2017E	2018E	2019E	2020E	2021E
每股股息（人民币）	0.26	0.29	0.31	0.31	0.30
现值（人民币）	0.26	0.27	0.27	0.25	0.23
核心项目—基本预测					
现值总和（人民币）					1.28
终值（人民币）					4.02
核心业务的公平值（人民币）-（1）					5.30
梅林关更新项目—基本预测					
平均售价（人民币/平方米）					75,000
扣除土地增值税后的利润（人民币/平方米）					30,553
深高速应占利润（百万元人民币）					7,282
*假设深高速向第三方出售所有权益					
以每股基础计算的深高速应占利润（人民币）					3.34
以每股基础计算的项目价值（人民币）-（2）					2.67
*给予20%折让					
分类加总估值法					
深高速的合理值一（1）+（2）					7.97
港元计的目标价					9.16
目前股价					6.96
潜在升幅					31.6%
主要假设					
加权平均资本成本					7.0%
港元兑人民币					0.87

来源：中国银河国际证券研究部

图2: 深高速的市盈率区间


来源: 彭博, 中国银河国际证券研究部

图3: 同业估值

公司	股票代码	股价 当地货币	市值 百万美元	市盈率(倍)			市净率(倍)			股本回报率(倍)			股息收益率(%)		
				2016	2017E	2018E	2016	2017E	2018E	2016	2017E	2018E	2016	2017E	2018E
深圳高速公路股份—H	548 HK	6.96	2,504	11.26	9.20	8.47	1.04	0.97	0.90	9.34	11.33	11.45	3.62	4.35	4.72
香港上市同业															
江苏宁沪高速公路	177 HK	11.06	7,013	14.45	13.99	12.69	2.18	2.07	1.97	15.68	15.61	15.89	4.34	4.94	5.25
浙江沪杭甬	576 HK	10.00	5,566	12.21	11.72	10.87	1.97	1.92	1.77	16.93	16.79	16.83	4.02	4.63	4.98
安徽皖通高速公路	995 HK	5.88	2,577	9.15	8.36	8.03	0.97	0.91	0.85	10.93	11.16	10.91	4.43	4.90	5.10
四川成渝高速公路	107 HK	3.20	1,853	8.62	10.68	8.96	0.62	0.63	0.60	7.44	5.60	6.30	3.95	2.16	2.88
合和公路基建	737 HK	4.46	1,761	22.57	19.84	20.37	2.19	2.19	2.17	8.72	9.57	9.79	4.29	4.65	4.65
越秀交通基建	1052 HK	5.60	1,201	8.85	9.05	8.38	0.90	0.86	0.83	10.41	9.65	9.73	5.89	6.59	7.20
简单平均				12.64	12.27	11.55	1.47	1.43	1.36	11.68	11.40	11.57	4.49	4.65	5.01
A股上市同业															
宁沪高速	600377 CH	9.37	7,013	13.68	13.37	12.38	2.05	2.03	1.92	15.58	15.49	15.82	4.48	5.28	5.66
深高速	600548 CH	8.68	2,504	14.95	13.73	11.33	1.45	1.44	1.31	9.88	10.89	11.82	2.53	2.80	3.15
四川成渝	601107 CH	4.65	1,853	14.44	17.88	15.00	1.05	1.05	0.99	7.44	5.60	6.30	2.37	1.29	1.72
东莞控股	000828 CH	11.98	1,840	14.54	14.01	12.35	2.34	2.21	1.98	17.00	16.30	16.40	2.50	2.75	3.17
赣粤高速	600269 CH	5.24	1,808	9.59	14.05	13.68	0.87	0.87	0.83	9.55	6.16	6.09	2.86	2.58	2.67
简单平均				13.44	14.61	12.95	1.55	1.52	1.41	11.89	10.89	11.29	2.95	2.94	3.27

来源: 彭博, 中国银河国际证券研究部预测

Shenzhen Expressway - H [0548.HK]

Unlocking the value of its hidden gem. Initiate with BUY

We believe it is time for the market to revisit Shenzhen Expressway (SZE). The Company is undergoing a transformation and will unlock more growth potential with its sizable balance sheet. While its core business of toll roads continues to deliver good growth, we expect the near-term catalyst to come from the value-unlocking of its Meilin Checkpoint Project, a real estate project located in central Shenzhen (estimated NAV per share: RMB2.67). Its expansion into the environmental business also adds growth potential which cannot be seen in traditional toll road business. In the medium term, we see its completion of the Shenzhen Outer Ring Expressway as the final piece of the puzzle completing its investment in the Guangdong-Hong Kong-Macau Bay Area. Initiate with BUY, with a target price of HK\$9.16 based on our SOTP analysis. The current dividend yield of >4% and the huge upside potential from the Meilin Checkpoint project should offer downside protection.

Investment Highlights

- Toll Road: Visible Contribution from New Projects.** SZE received a large compensation in 2014 & 2015 (RMB6.6bn) from the government's repurchase of four toll roads owned by the Company. SZE did not remain idle, but keep investing in new toll road projects to strengthen its portfolio. Currently, we expect the Wuhuang Expressway, Yichang Expressway and Shenzhen Outer Ring Expressway to make a visible contribution to SZE starting from 2017E to 2019E, respectively. Meanwhile, subject to the decision of the SZ Gov't on the repurchase of Three Projects, SZE may also record a substantial RMB1.6bn disposal gain in 2019E.
- Meilin Checkpoint: A Very Profitable Real Estate Project.** As part of the compensation package from the SZ Gov't, SZE received a land plot in Meilin Checkpoint. This is a real estate project co-owned by SZE and its parent SZI [0152.HK]. With reference to SZI's treatment of its Qianhai land plot, we expect both parties to sell a partial stake in the Project to a developer and record a substantial gain. Even with the tightening market policy and Land Appreciation Tax as high as 60%, we still expect the Project to be very valuable to SZE, and its NAV could be as high as RMB2.67/share.
- Environmental Business: Additional New Growth Drivers.** Another use of the compensation proceeds was SZE's investment in an environmental business, and we see it well-justified, given the limitations its core business faces. In May 2017, it acquired a 20% stake in Derun Environment, which has strong presence in Chongqing's water and WTE business. The acquisition helped diversify SZE's business, as well as contributing significant earnings. We expect its EBT contribution to increase from 5.5% in 2017E to 11.0% in 2018E.
- Core Business Fairly Valued; Upside Depends on Meilin Checkpoint.** Our SOTP analysis suggests that current share price already reflects the value of SZE's core business, but we do see significant upside from the contribution of the Meilin Checkpoint Project. A near-term catalyst will be progress in the Meilin Checkpoint Project in 2H17.
- Risks:** (1) Weaker-than-expected traffic volume; (2) lower-than-expected contribution from the Meilin Checkpoint Project; (3) uncertainty regarding new toll road policies; and (4) RMB depreciation, which would adversely affect the dividends received by foreign investors.

Year ended 31 December	FY2015	FY2016	FY2017E	FY2018E	FY2019E
Revenue (RMB m)	3,421	4,532	4,842	4,996	5,567
YoY Change	-5.5%	32.5%	6.8%	3.2%	11.4%
Net Profit After Tax (RMB m)	1,553	1,169	1,436	1,561	1,686
YoY Change	-29.0%	-24.7%	22.8%	8.7%	8.0%
EPS (RMB)	0.71	0.54	0.66	0.71	0.77
YoY Change	-29.2%	-24.5%	22.7%	8.7%	8.0%
ROE	13.2%	9.5%	11.3%	11.5%	11.5%
P/E	8.5x	11.3x	9.2x	8.5x	7.8x
Dividend Yield	5.6%	3.6%	4.3%	4.7%	5.1%

Sources: Company, CGIS Research

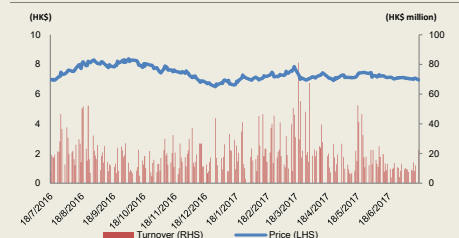
China Infrastructure Sector Toll Road

BUY

Close: HK\$6.96 (July 17, 2017)

Target Price: HK\$9.16 (+31.6%)

Price Performance



Source: Bloomberg

Market Cap	US\$2,504m
Shares Outstanding	2,180.8m
Auditor	Ernst & Young
Free Float	40.2%
52W range	HK\$6.23-8.17
3M average daily T/O	US\$2.64m
Major Shareholding	SZ International (50.9%)

Sources: Company, Bloomberg

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Key financials

Income Statement (RMB m)	FY2015	FY2016	FY2017E	FY2018E	FY2019E	Balance Sheet (RMB m)	FY2015	FY2016	FY2017E	FY2018E	FY2019E
Revenue	3,421	4,532	4,842	4,996	5,567	Bank Balances and Cash	6,422	5,664	3,806	5,008	6,642
Operating Costs	(1,679)	(2,533)	(2,461)	(2,547)	(2,839)	Trade Receivables	660	545	742	586	894
SG&A	(148)	(157)	(127)	(136)	(152)	Inventories	649	663	611	708	763
Other Operating Items	(743)	9	(60)	(65)	(72)	Other Current Assets	2,013	2,218	1,828	1,550	2,188
Investment Income	1,155	434	431	560	581	Total Current Assets	8,424	8,000	5,503	6,679	8,699
Finance Costs	(371)	(639)	(751)	(771)	(885)	PP&E	1,156	1,028	883	806	761
Operating Profit	1,635	1,645	1,873	2,037	2,200	Long-term Equity Investments	1,983	4,703	8,936	8,584	8,248
Other Non-operating Items	37	(23)	11	11	11	Intangible Assets	8,424	8,000	5,503	6,679	8,699
Net Profit Before Tax	1,672	1,622	1,884	2,048	2,212	Other Non-current Assets	11,683	10,655	14,124	13,486	12,231
Income Tax	(177)	(306)	(377)	(410)	(442)	Total Non-current Assets	23,246	24,385	29,446	29,554	29,938
Net Profit After Tax	1,553	1,169	1,436	1,561	1,686	Total Assets	31,671	32,385	34,949	36,234	38,637
Minority Interest (After Tax)	(58)	147	71	78	84	Trade Payables	182	220	171	233	217
EPS (RMB)	0.71	0.54	0.66	0.71	0.77	Short-term Borrowings	1,836	1,582	1,125	125	125
DPS (RMB)	0.34	0.22	0.26	0.29	0.31	Other Current Liabilities	2,092	2,983	2,807	2,827	2,857
EBITDA	2,909	3,457	3,862	4,050	4,435	Total Current Liabilities	4,111	4,784	4,103	3,186	3,199
EBIT	2,043	2,262	2,636	2,819	3,097	Long-term Borrowings	4,892	5,526	7,711	8,942	10,287
Revenue Growth	-5.5%	32.5%	6.8%	3.2%	11.4%	Other Non-current Liabilities	7,707	7,363	7,397	7,303	7,203
Operating Profit Growth	12.1%	0.6%	13.8%	8.7%	8.0%	Total Non-current Liabilities	12,599	12,889	15,108	16,245	17,490
Net Profit Growth	-29.0%	-24.7%	22.8%	8.7%	8.0%	Total Liabilities	16,710	17,673	19,210	19,431	20,689
EPS Growth	-29.2%	-24.5%	22.7%	8.7%	8.0%	Total Common Equity	12,369	12,674	13,630	14,617	15,678
EBITDA Margin	85.0%	76.3%	79.8%	81.1%	79.7%	Minority Interest	2,592	2,037	2,108	2,186	2,270
EBIT Margin	59.7%	49.9%	54.4%	56.4%	55.6%	Total Equity	14,961	14,711	15,739	16,803	17,947
Operating Margin	47.8%	36.3%	38.7%	40.8%	39.5%	Total Equity & Liabilities	31,671	32,385	34,949	36,234	38,637
Net Profit Margin	45.4%	25.8%	29.7%	31.2%	30.3%						
						Ratios	FY2015	FY2016	FY2017E	FY2018E	FY2019E
Cash Flow Statement (RMB m)	FY2015	FY2016	FY2017E	FY2018E	FY2019E	ROE	13.2%	9.5%	11.3%	11.5%	11.5%
Net Profit After Tax	1,553	1,169	1,436	1,561	1,686	ROA	6.1%	3.7%	4.4%	4.5%	4.7%
D&A Add-back	899	1,231	1,265	1,262	1,363	Net Debt / Equity	2.0%	9.8%	32.0%	24.2%	21.0%
Net Change in Working Capital	(431)	(578)	665	239	(249)	EBITDA Interest Coverage	7.8x	5.4x	5.1x	5.3x	5.0x
Other Items	(249)	304	392	288	388	Rec. Turnover Days	84	60	49	49	49
CFO	1,772	2,127	3,758	3,350	3,187	Inventory Turnover Days	94	129	95	95	95
Purchase of PP&E & Subsidiaries (CAPEX)	(1,414)	(2,380)	(6,506)	(1,717)	(2,077)	Payables Turnover Days	52	35	28	30	30
Disposal	1,572	0	-	-	-	Current Ratio	2.05x	1.67x	1.34x	2.10x	2.72x
Investment Income	17	36	606	913	917	Quick Ratio	1.89x	1.53x	1.19x	1.87x	2.48x
Other Investing Items	409	(185)	17	-	-						
CFI	584	(2,530)	(5,883)	(804)	(1,160)	Valuation	FY2015	FY2016	FY2017E	FY2018E	FY2019E
Dividends & Interest Paid	(1,549)	(1,303)	(1,231)	(1,345)	(1,509)	P/E	8.5x	11.3x	9.2x	8.5x	7.8x
Net Change in Debt	(2,467)	(101)	1,728	231	1,345	P/B	1.07x	1.04x	.97x	.90x	.84x
Other Financing Items	6,586	(125)	(229)	(229)	(229)	EV / EBITDA	9.4x	7.1x	5.8x	5.3x	4.8x
CCF	2,571	(1,529)	267	(1,343)	(393)	Dividend Yield	5.6%	3.6%	4.3%	4.7%	5.1%
Total Cash Flow	4,926	(1,932)	(1,858)	1,202	1,634						
Free Cash Flow	2,158	(31)	(2,600)	1,897	1,360						

Revenue (RMB m)	FY2015	FY2016	FY2017E	FY2018E	FY2019E
Toll Road	3,014	3,680	4,127	4,418	4,923
Others	407	852	715	578	644
Total	3,421	4,532	4,842	4,996	5,567
Segment Gross Profit (RMB m)	FY2015	FY2016	FY2017E	FY2018E	FY2019E
Toll Road	1,595	1,817	2,197	2,293	2,567
Others	184	156	160	165	170
Total	1,778	1,973	2,357	2,458	2,738
Segment Gross Profit Margin	FY2015	FY2016	FY2017E	FY2018E	FY2019E
Toll Road	52.9%	49.4%	53.2%	51.9%	52.2%
Others	45.2%	18.3%	22.4%	28.6%	26.4%
Overall	52.0%	43.5%	48.7%	49.2%	49.2%

Sources: Company, Capital IQ, CGIS Research estimates

Valuation: Fairly-Valued Core Business; Upside on Meilin Checkpoint

Our SOTP analysis suggested that SZE is now trading at an attractive level, given the huge potential of the value unlocking from the Meilin Checkpoint Project. Our SOTP consists of two parts: (1) a DDM model for valuing how much dividend investors could expect from the core business, and (2) DCF on the Meilin Checkpoint Project.

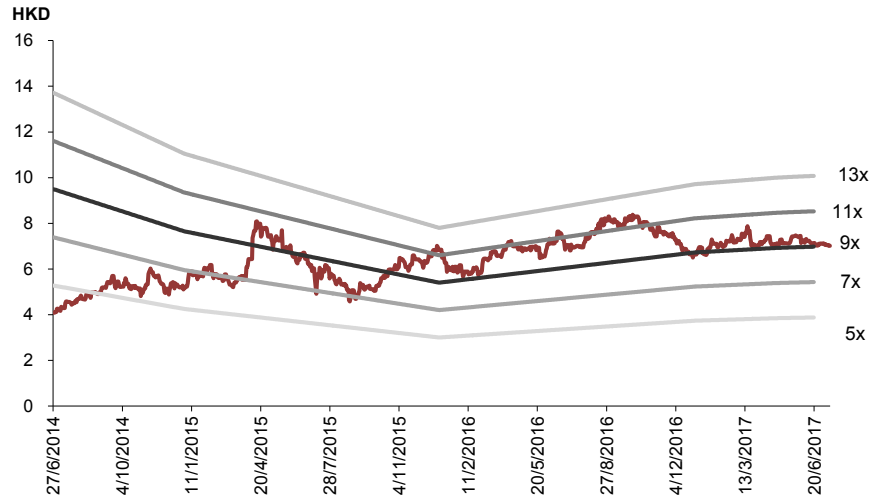
In the first part of the analysis, the DDM model suggests SZE's core business could be valued at RMB5.30/share. The second part of our analysis suggests that the Meilin Checkpoint Project could be valued as high as RMB3.34/share, but we believe a 20% discount is more applicable to the current situation, given the uncertainty of the project execution.

Our estimate of fair value of SZE therefore is RMB7.97/share, or HK\$9.16/share, implying 31.6% upside from the current share price of HK\$6.96. We realize that some investors may stay on the sidelines, as the current share price implies a rich valuation of the core business, and there is uncertainty on the Meilin Checkpoint Project. Still, we believe the value could unfold when SZE and SZI secure a development partner and sell a stake to the partner. Initiate with BUY rating.

Figure 1: Our Valuation of SZE

DDM - Baseline Case	2017E	2018E	2019E	2020E	2021E
DPS (RMB)	0.26	0.29	0.31	0.31	0.30
PV (RMB)	0.26	0.27	0.27	0.25	0.23
Core Business - Baseline Case					
Sum of PV					1.28
Terminal value					4.02
Fair Value for Core Business (RMB) - (1)					5.30
Meilin Checkpoint Project - Baseline Case					
ASP (RMB/sqm)					75,000
Profit after LAT (RMB/sqm)					30,553
Profit attributable to SZE (RMB m)					7,282
<i>*Assuming SZE sells all its stake to third-party</i>					
Profit attributable to SZE, on per share basis (RMB)					3.34
Value of Project, on per share basis (RMB) - (2)					2.67
<i>*With 20% discount applied</i>					
SOTP					
Fair Value of SZE - (1) + (2)					7.97
Our Target Price in HKD					9.16
Current Price					6.96
Potential Upside					31.6%
Key Assumption:					
WACC					7.0%
HKDCNY					0.87

Source: CGIS Research estimates

Figure 2: PER Band of SZE


Source: Bloomberg, CGIS Research

Figure 3: Peer Comparison

Company	Ticker	Price	Mkt Cap	PER(x)			PBR(x)			ROE(%)			Div Yield(%)		
				2016	2017E	2018E	2016	2017E	2018E	2016	2017E	2018E	2016	2017E	2018E
Shenzhen Expressway Co-H	548 HK	6.96	2,504	11.26	9.20	8.47	1.04	0.97	0.90	9.34	11.33	11.45	3.62	4.35	4.72
Peers Listed in Hong Kong															
Jiangsu Express Co Ltd-H	177 HK	11.06	7,013	14.45	13.99	12.69	2.18	2.07	1.97	15.68	15.61	15.89	4.34	4.94	5.25
Zhejiang Expressway Co-H	576 HK	10.00	5,566	12.21	11.72	10.87	1.97	1.92	1.77	16.93	16.79	16.83	4.02	4.63	4.98
Anhui Expressway Co Ltd-H	995 HK	5.88	2,577	9.15	8.36	8.03	0.97	0.91	0.85	10.93	11.16	10.91	4.43	4.90	5.10
Sichuan Expressway Co-H	107 HK	3.20	1,853	8.62	10.68	8.96	0.62	0.63	0.60	7.44	5.60	6.30	3.95	2.16	2.88
Hopewell Highway Infrastruct	737 HK	4.46	1,761	22.57	19.84	20.37	2.19	2.19	2.17	8.72	9.57	9.79	4.29	4.65	4.65
Yuexiu Transport Infrastructure	1052 HK	5.60	1,201	8.85	9.05	8.38	0.90	0.86	0.83	10.41	9.65	9.73	5.89	6.59	7.20
Simple Average				12.64	12.27	11.55	1.47	1.43	1.36	11.68	11.40	11.57	4.49	4.65	5.01
Peers Listed in A-share Market															
Jiangsu Expressway Co Ltd-A	600377 CH	9.37	7,013	13.68	13.37	12.38	2.05	2.03	1.92	15.58	15.49	15.82	4.48	5.28	5.66
Shenzhen Expressway Co Ltd-A	600548 CH	8.68	2,504	14.95	13.73	11.33	1.45	1.44	1.31	9.88	10.89	11.82	2.53	2.80	3.15
Sichuan Expressway Co-A	601107 CH	4.65	1,853	14.44	17.88	15.00	1.05	1.05	0.99	7.44	5.60	6.30	2.37	1.29	1.72
Dongguan Development Hldgs-A	000828 CH	11.98	1,840	14.54	14.01	12.35	2.34	2.21	1.98	17.00	16.30	16.40	2.50	2.75	3.17
Jiangxi Ganyue Expressway -A	600269 CH	5.24	1,808	9.59	14.05	13.68	0.87	0.87	0.83	9.55	6.16	6.09	2.86	2.58	2.67
Simple Average				13.44	14.61	12.95	1.55	1.52	1.41	11.89	10.89	11.29	2.95	2.94	3.27

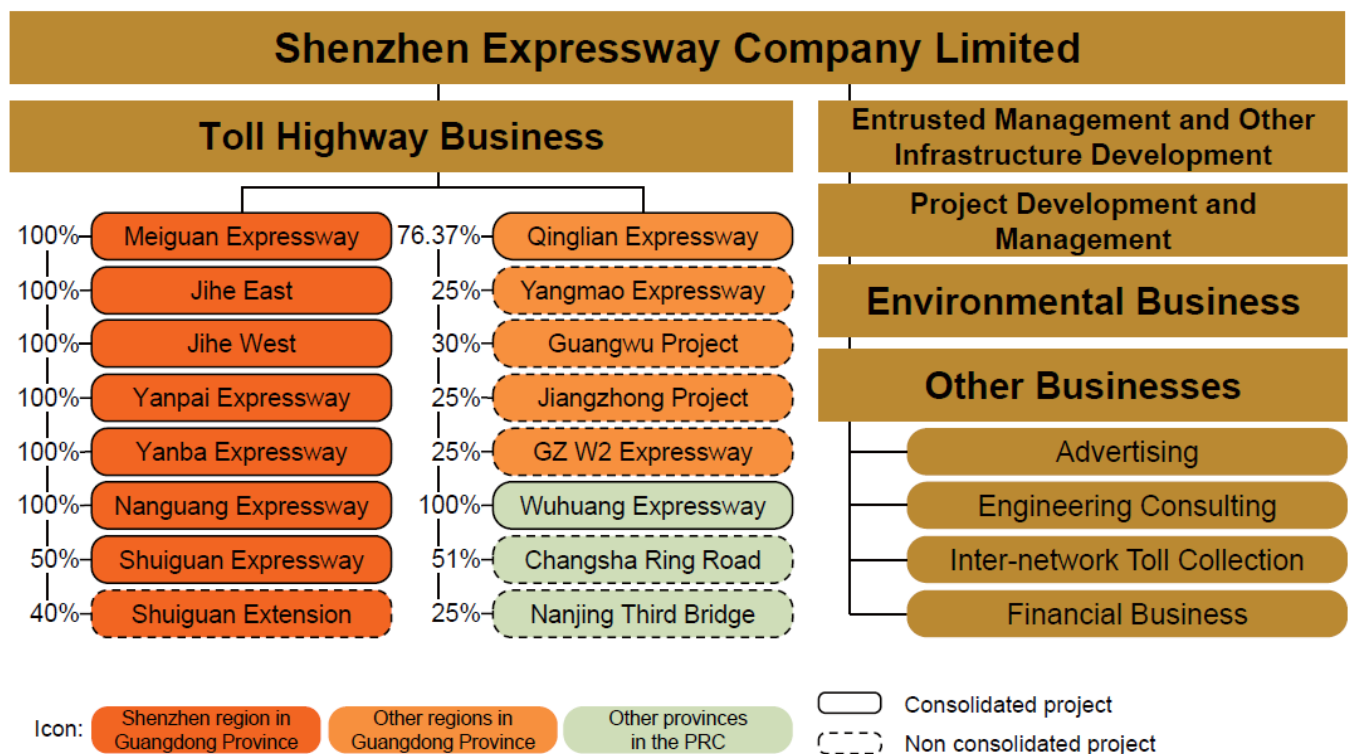
Source: Bloomberg, CGIS Research estimates

Overview

Shenzhen Expressway (SZE) is an A-H dual-listed infrastructure company and a subsidiary of Shenzhen International [152.HK], a state-owned company focusing on the logistics industry. Currently, the core business of SZE is still the operation of toll roads in China, but it is gradually shifting to the environmental business. With the strong support of the Shenzhen municipal government, SZE has been successfully tapping into other regions in China as well.

SZE can be generally broken down into two segments: (1) its stable toll road business, and (2) its growing environmental business. That said, we believe the more stable toll road segment could also contribute visible growth in 2017E-2019E, as SZE has been increasing its investment in the segment recently. We see that toll road business not only generates predictable and stable returns for investors, but the Company can also reinvest part of the capital into other fast-growing, capital-intensive segments, such as the environmental business.

Figure 4: Business Structure of SZE



Source: Company

Toll Road Segment - Growing Faster Than You May Think

The recent transaction history of SZE is complicated, but the value is there.

We believe the growth potential of SZE has not yet been fully appreciated by the market, as the Company has experienced complicated transactions with the Shenzhen Government in relation to toll road repurchases and urban redevelopment. Therefore, the treatment of some assets is not yet known, and this may hinder some investors from valuing the Company. Still, when referencing previous transaction details, we expect the transactions to be earnings accretive.

What happened earlier? A series of repurchases

As at 31 December 2016, SZE had 16 toll road projects in China, and nine of them was consolidated in the financial statements of the Company. Yet when their operations and financial performance are examined closer, not all of these nine toll roads has been making a normal contribution to SZE. The Shenzhen Government has been repurchasing toll roads in recent years, and this could make the performance of SZE confusing. Still, SZE has benefited from these transactions, and has seen generally improving traffic flow.

(1) Meiguan Expressway - Part of It Repurchased by the SZ Govt

Large disposal gain in 2014 from the government repurchase

The transaction of Meiguan Expressway in 2014 resulted in a huge asset disposal gain for SZE. It has served as the benchmark for toll road compensation, and it will be important to the development of SZE in the coming years.

Meiguan Expressway is a toll road connecting the Futian CBD and the suburbs in Bao'an. Due to its strategic location, the Shenzhen Government decided to repurchase part of it in 2014, and make that part toll-free in order to facilitate the development of the Longhua New District. The length of the Meiguan Expressway is 19.2km, and 13.8km of it started to be toll-free on 1 April 2014. SZE retained the original economic interest in the remaining 5.4km portion.

The RMB2.7bn compensation was paid in cash and three installments. The compensation of RMB2.7bn consisted of two parts: (1) compensation for future income from the toll free section for approximately RMB1.6bn, and (2) other relevant expenses for approximately RMB1.1bn. As a result, SZE recorded a disposal gain arising from this transaction in 2014. This significantly boosted the earnings that year, and a special dividend of RMB0.255 per share was distributed.

Figure 5: Toll Road Project List of SZE

Toll Highways		Locations	Length (km)	SZE's Stake	No. of Lane(s)	Status	Maturity		
Currently owned									
1	Meiguan Expressway	梅观高速	Shenzhen	5.4	100%	6 / 8	Operation	2027.03	Repurchased by SZ Govt
2	Jihe East	机荷东段	Shenzhen	23.7	100%	6	Operation	2027.03	
3	Jihe West	机荷西段	Shenzhen	21.8	100%	6	Operation	2027.03	
4	Yanba Expressway	盐坝高速	Shenzhen	29.1	100%	6	Operation	Section A:2026.04 / Section B:2028.07 / Section C:2035.03	Repurchased by SZ Govt
5	Shuiguan Expressway	水官高速	Shenzhen	20	50%	10	Operation	2025.12	
6	Shuiguan Extension	水官延长段	Shenzhen	6.3	40%	6	Operation	2025.12	
7	Yanpai Expressway	盐排高速	Shenzhen	15.6	100%	6	Operation	2027.03	Repurchased by SZ Govt
8	Nanguang Expressway	南光高速	Shenzhen	31	100%	6	Operation	2033.01	Repurchased by SZ Govt
9	Yangmao Expressway	阳茂高速	Guangdong	79.8	25%	4	Operation	2027.07	
10	Guangwu Project	广梧项目	Guangdong	37.9	30%	4	Operation	2027.11	
11	Jiangzhong Project	江中项目	Guangdong	39.6	25%	4	Operation	2027.08	
12	GZ W2 Expressway	广州西二环	Guangdong	40.2	25%	6	Operation	2030.12	
13	Qinglian Expressway	清连高速	Guangdong	216	76.37%	4	Operation	2034.07	
14	Wuhuang Expressway	武黄高速	Hubei	70.3	100%	4	Operation	2022.09	
15	Changsha Ring Road	长沙环路	Hunan	34.7	51%	4	Operation	2029.1	
16	Nanjing Third Bridge	南京三桥	Jiangsu	15.6	25%	6	Operation	2030.1	
Work-in-progress / transaction waiting for completion									
17	Yichang Expressway	益常高速	Hunan	73.1	100%	4	Transaction to be completed	2033.12	
18	Outer Ring Expressway	外环高速	Shenzhen	93	100%	6	Under construction	2043.12	

Source: Company, CGIS Research

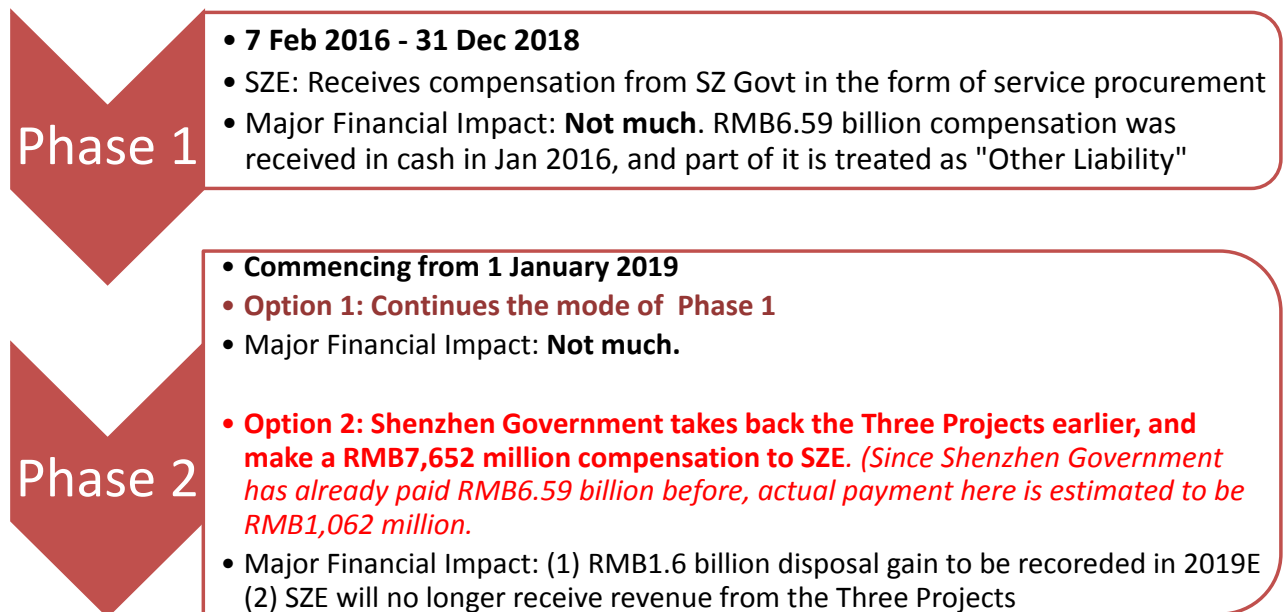
(2) Three Toll Roads in Shenzhen - Happy Ending Regardless of Their Final Fate

Yanpai, Yanba and Nanguang are the Three Projects subject to the government repurchase.

In addition to Meiguan Expressway, the Shenzhen Government decided to repurchase four toll roads in Shenzhen to facilitate urban development. Three of the toll roads ("Three Projects"), namely Nanguang Expressway, Yanpai Expressway and Yanba Expressway, were wholly owned by SZE. The agreement between the Shenzhen Government and SZE was made on 30 November 2015, but the Shenzhen Government not yet decided how the repurchase should be executed practically. We expect the Shenzhen Government to decide on the actual execution details and compensation as early as early 2018.

Different forms of compensation will affect the core business of SZE in Shenzhen radically, but nonetheless in a positive way. According to the agreement signed in 2015, there will be two phases in relation to the transaction.

Figure 6: Different Outcome of the Three Projects



Source: CGIS Research

Phase 1 (7 February 2016 - 31 December 2018)

In this phase, SZE implements a toll-free policy for the Three Projects and continues to be responsible for the management and maintenance of the three toll roads. SZE still retains the right to receive revenue from the Three Projects, but instead of earning toll revenue as usual, it receives the compensation from Shenzhen Government for the exempted toll fees in the form of service procurement.

Phase 2 (commencing from 1 January 2019)

Before the end of Phase 1, the Shenzhen Government has two options in regard to the final outcome of the Three Projects.

Option 1: Continue to adopt the adjustment mechanism in Phase 1, i.e., continue to acquire services from SZE until the maturity of the operating rights. The total compensation would be RMB9,688 million.

>>> Impact on Financial Statements: Not much, since SZE would still earn toll and other revenue as usual, but from the Shenzhen Government instead of drivers.

Option 2: Shenzhen Government takes back the Three Projects earlier and provides RMB7,652 million compensation to SZE. In this case, SZE would no longer retain the Fee Entitlement Right of the Three Projects and would not be responsible for the corresponding management or maintenance.

>>>Impact on Financial Statements: In this case, the financial impact would be very similar to that of the Meiguan Expressway case, where SZE would expect to record an RMB1.6 billion (after-tax) disposal gain in 2019, and SZE would no longer receive revenue from the Three Projects.

SZE will benefit regardless

In either case, SZE would still benefit from the huge compensation amount from the Shenzhen Government, as the present value of the compensation exceeds the original present value of revenue generated in the Three Projects. On 29 January 2016, SZE received the first compensation payment of RMB6,588m. This large payment not only enhanced the financial position of SZE, but also allowed SZE to acquire further projects to enhance its return (see later section for projects acquired).

It is still unknown which option will be adopted, but at this stage we assume the Shenzhen Government will choose Option 1, and the Three Projects will still be like normal operating assets to investors.

2017E-2018E: Increased Contribution from Wuhuang and the Acquisition of Yichang

Having secured the RMB6,588m compensation in cash, SZE has been utilizing this large amount by investing in toll roads and environmental business projects. We expect the incremental growth in 2017 to come from two sources: (1) additional earnings contribution from Wuhuang Expressway, and (2) the acquisition of Hunan Yichang Expressway.

(1) Wuhuang Expressway - 4.5% Earnings Accretion

Wuhuang Expressway used to be one of the major assets owned by SZE. It is located in Hubei Province connecting Wuhan and Huangshi. Prior to 2 December 2016, it was 55% owned by SZE and 45% owned by its parent SZI. On that day, SZE acquired the remaining stake from SZI for RMB453.5m (we estimate the valuation for the deal is 5.5x 2016E PER). It is now 100% owned by SZE until the maturity of the asset.

4.5% earnings accretion until its maturity in Sept 2022

We therefore expect the profit contributed from Wuhuang Expressway to increase 81.8% on an annual basis compared to the situation where SZE continues to own 55% of it. We estimate that this transaction will be equivalent to ~4.5% earnings accretion to SZE per year until the end of operating rights in September 2022.

It should be noted that while the remaining useful life of Wuhuang Expressway is just over five years, it will be the first toll road soon to mature under SZE. Still, we believe there may be potential upside. The Regulations on the Administration of Toll Roads (收費公路管理條例) are currently under amendment and are subject to final approval. It is expected that the amendment will be finalized by the end of 2017. Currently, market is expecting the operating rights of toll roads to be extended if there is a reconstruction or expansion and this may be positive to Wuhuang Expressway, as well as other toll roads owned by SZE.

Figure 7: Financial Performance of JEL Company (Holding Company of Wuhuang Expressway)

Unit RMB '000	FY2014	FY2015	FY2016	FY2017
Net profit (after tax)	153,118	155,654	158,123	168,213
YoY Increase		1.7%	1.6%	6.4%
Profit Attributable to SZE	84,215	85,610	92,897	168,213
YoY Increase		1.7%	8.5%	81.1%
As % of SZE's profit attributable to shareholders	3.9%	5.5%	7.9%	11.7%

Source: CGIS Research estimates

(2) Yichang Expressway - More Prominent Earnings Effect from The Acquisition in 2018E

Earnings from Yichang should come into effect in mid-2017E

SZE acquired Yichang Expressway for a cash consideration of RMB1.27bn in January 2017. The implied valuation of the deal is 1.3x 2016 PBR, or 7.56x PER based on 2016 earnings of RMB171m. The deal is expected to be completed on 30 June 2017. The Hunan-based Yichang Expressway is a two-way expressway with four lanes, starting from Yiyang City and ending in Deshan Tanshuping, Changde City. Because of its strategic location, it is a main component of the skeleton of the Hunan Expressway Plan “five vertical and seven horizontal”.

Officially, SZE projects that if the transaction could be closed on 30 June 2017, Yichang Expressway could bring in RMB200m in revenue, and RMB30m in net profit attributable to shareholders in 2017E. In this case, we expect Yichang Expressway to contribute approximately 2% of the net profit in 2017E.

..and earnings will be more visible in 2018E

However, we note that the estimated RMB30m net profit from Yichang Expressway is notably lower than its previous track record, while the operational figures are still expected to maintain moderate growth. Thus, we believe there are one-off expenses (e.g. transaction costs and accounting items) involved in 2017E, and the profit contribution will be bumped back to a more normal level in 2018E and later. Given its importance, Yichang Expressway should become another important asset of SZE and contribute more than 6% of total net profit in the years to come.

Figure 8: Financial Performance of Yichang Company (Holding Company of Yichang Expressway)

Unit: RMB'000	2015	2016	2017E	2018E	2019E
Operating Revenue (VAT exclusive)	343,472	382,800	398,535	437,979	466,815
<i>YoY Change</i>		11.5%	4.1%	9.9%	6.6%
Operating Profit	162,475	190,916	190,368	225,727	245,885
<i>YoY Change</i>		17.5%	-0.3%	18.6%	8.9%
Net Profit Attributable to SZE	-	-	30,000	101,700	116,818
<i>YoY Change</i>				239.0%	14.9%
As % of net profit			2.09%	6.52%	6.93%

Source: CGIS Research estimates

2019E: The Long-awaited Outer Ring Expressway

Outer Ring is an important toll road connecting SZ and Dongguan

The Shenzhen Outer Ring Expressway should be the last toll road built in Shenzhen, and SZE will be responsible for building and operating the Shenzhen part of it ("Outer Ring Section A"). The expressway is expected to be completed in early 2019E, boosting the earnings of SZE.

The 93-km-long Shenzhen Outer Ring Expressway runs from east to west, with its main portion located in north Shenzhen (~76 km), while a portion is located in Dongguan (~17km). It serves an important highway network connecting the two cities. The toll road starts in Bao'an District, Shenzhen, connecting with Guangshen Coastal Expressway, and ends in Dapeng New District, Shenzhen, connecting with Yanba Expressway.

Notably, it is a PPP project between SZE and the Shenzhen Government. While the total investment required is estimated to be RMB20.6bn, SZE is only responsible for a fixed amount of RMB6.5bn (or 31.6% of the total investment). The rest will be provided by Shenzhen SEZ Construction and Development Group, an SOE under the Shenzhen Government.

The Company now expects the Outer Ring Expressway to start generating RMB436m revenue and operating profit of RMB234m in the first year of operation (2019E). The operating performance should ramp up as traffic gradually improves. With the opening of this toll road, SZE should experience higher profit from 2019E, which should offset part of the income lost from the expiry of Wuhuang Expressway in September 2022E.

It should bring higher profits to SZE in 2019E

In addition to the Shenzhen Outer Ring Expressway, it should be noted that if the Shenzhen Government decides to repurchase the Three Projects entirely using the previously-mentioned "Option 2", then SZE will record an RMB1.6bn disposal gain. This is equivalent to RMB0.87/share, or HK\$1.00/share.

Figure 9: Financial Performance of Shenzhen Outer Ring Expressway

Unit: RMB'000	2019E	2020E	2021E	2022E	2023E
Operating Revenue	435,890	499,460	573,370	580,537	743,770
YoY Change		14.6%	14.8%	1.3%	28.1%
Operating Profit	234,214	280,179	333,212	317,289	454,522
YoY Change		19.6%	18.9%	-4.8%	43.3%
Average Daily Traffic					
Flow (number of vehicles)	34,900	40,048	46,055	52,560	59,988
YoY Change		14.8%	15.0%	14.1%	14.1%

Source: CGIS Research estimates

Unlocking Value from Meilin Checkpoint

Other than the operating profit from toll road projects, we expect SZE to generate a substantial gain from property-related projects, and this gain is likely to be booked in 2018E. As part of the compensation package related to the repurchase of Meiguan Expressway, SZE and its parent SZI are allowed to carry out the Meilin Checkpoint Urban Renewal Project. Through a project company named United Land Company, SZE holds 49% stake in the project, while SZI holds a 51% stake.

Figure 10: Location of the Meilin Checkpoint Urban Renewal Project



Source: Company

The Meilin Checkpoint Project consists of land parcels of approximately 96,000 sq.m. The GFA planned is not more than 486,400 sq.m, and is designated for residential and commercial use. The total cost of the project land parcel is estimated to be RMB5,000m to RMB5,200m, and the land premium is estimated to be RMB10,500 per GFA.

As at 30 June 2017, SZE and SZI were still evaluating methods to realize the value of the land parcel. One feasible method would be to dispose of part of the stake of the project company to a property developer.

Figure 11: Scenario Analysis of Meilin Checkpoint Value Realization

Background Information			
Land area (sqm)		96,000	
GFA (sqm)		486,400	
Plot ratio		5.07	
Stake owned by SZE		49%	
Stake owned by SZI		51%	
Cost Breakdown:			
Total Cost (RMB m)		5,107	
Land Cost per GFA (RMB/sqm)		10,500	
Total Cost per GFA (RMB/sqm)		18,485	
Scenario Analysis			
ASP (RMB/sqm)		75,000	85,000 90,000
Gross Margin		75%	78% 79%
Profit After LAT (RMB/sqm)		30,553	35,238 37,581
Profit attributable to SZE (RMB m)		7,282	8,399 8,957

*Assuming SZE sells all its stake to third-party

Source: Company, CGIS Research estimates

While how the project is to be treated is still unknown at the moment, the project itself could be very profitable, according to our estimate. As the total cost for development per sqm is estimated to be less than RMB20,000, while the ASP for nearby residential projects could be as high as RMB75,000, the GPM of the project could be very high. Even though the project owner has to pay a high amount of Land Appreciation Tax (LAT, where we estimate that the applicable LAT rate could be 60% due to high value-added), the Checkpoint Project is still expected to generate a significant return.

Therefore, we expect SZE to record a huge disposal gain at some point in 2018E when SZE and SZI sell a partial stake in the project to a third-party developer, and a considerable amount of profit arising from property sales in subsequent years. We expect the Company to announce further details in 2H 2017E.

Diversifying its Business

While the core strength of SZE has been the operation and management of toll roads in China, it should be not surprising that this industry is facing a bottleneck. There are a few critical factors limiting the expansion of SZE's core business.

1. A slowdown in infrastructure investment in China, especially in toll roads. The road network in China is relatively mature, and there are only few new projects available in more developed regions. Like its competitors, SZE is facing a shortage of new projects, and acquisitions are increasingly competitive and difficult.

2. Maturing portfolio with expiries looming. Toll road projects usually operate in the BOT model, where operators like SZE have to transfer the asset to the municipal government for free at the end of operating period. The operating period usually lasts for 20 to 30 years. Wuhuang Expressway will expire in September 2022, so this could explain the less favourable environment SZE is facing.

3. Toll-free is becoming more common. The Shenzhen Government's repurchase of four toll roads owned by SZE is a typical example of municipal governments' pushing toll-free policies in favour of drivers and urban development. The central government in China is also pushing policies to waive toll fees during holidays. While the government may offer reasonable compensation to toll road operators, there is the risk of revenue being hit.

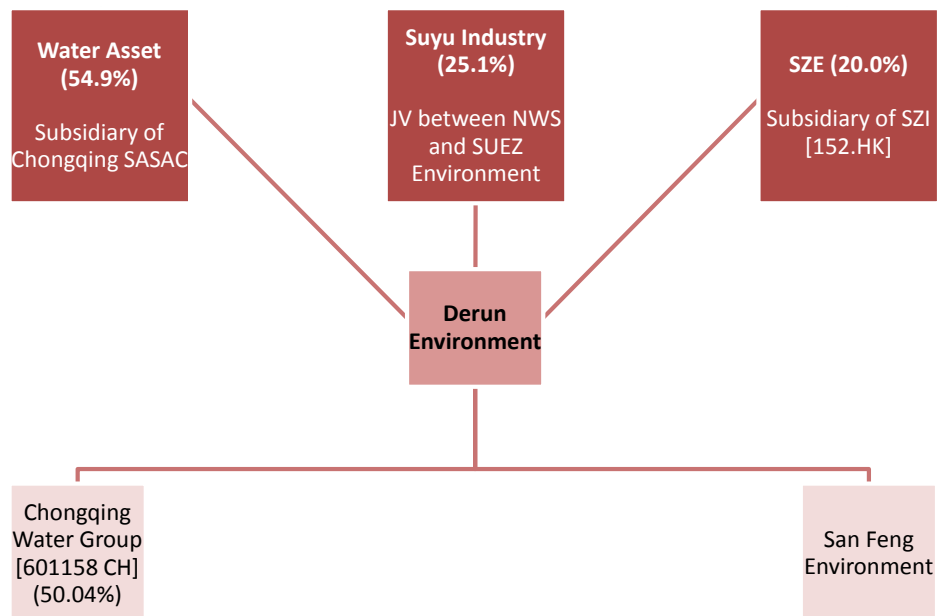
4. Higher uncertainty on traffic flow. While toll roads always face the risk of traffic diversion to newly constructed toll roads, operators also face competition from rail and air transport. Some of the toll roads owned by SZE have been facing these problems consistently.

Many operators have been trying to diversify their business so that the risk from the sector is lowered. Although slightly later than its competitors, the Company is now diversifying by entering the environmental service sector, in addition to other business, such as property development.

Investment in Derun Environment

On 25 May 2017, SZE acquired a 20% stake in Derun Environment for a consideration of RMB4.41bn. The acquisition is equivalent to 22.5x 2016 PER, on par with the average valuation paid by non-environmental listed companies acquiring unlisted environment related businesses in 2016. This marked the Company's entry into the environmental business. Derun Environment is a Chongqing-based SOE with two distinctive assets: (1) a 50.04% equity interest in Chongqing Water Group [601158.CH]; and (2) a 57.12% stake in San Feng Environment.

Figure 12: Shareholding structure of Derun Environment



Source: Company, CGIS Research

Derun should generate stable returns to SZE starting in 2017E

We expect Derun Environment to generate stable investment returns for SZE. Derun Environment's net profit after tax for the 11 months ended 30 November 2016 was RMB896m. According to SZE, the transaction was completed in May 2017, and the Company expects Derun Environment to add RMB45m to RMB120m profit for 2017E, or 3.85% to 10.26% of the net profit for 2016.

We expect Derun Environment's profit contribution to SZE to remain stable in the years to come. While the profit from Chongqing Water Group may have fluctuated in the past, it has been offset by the higher growth of San Feng Environment. Meanwhile, we note that the profit of Chongqing Water Group in 2016 was affected by a one-off tax item, but the profit should revert to a normal level in 2017E as the tax dispute has been resolved.

Figure 13: Financial Performance of Derun Environment

(RMB'000)	FY2014	FY2015	FY2016
Net Profit (before tax, including minority interests)	1,677,614	1,727,562	1,526,305
YoY Change		3.0%	-11.6%
Net Profit (after tax, attributable to owners of the company)	630,633	647,544	723,561
YoY Change		2.7%	11.7%

Source: Company, CGIS Research

**EBT contribution from Derun:
11.0% in 2018E**

Given that the deal was completed in May 2017, we expect the EBT contribution from Derun Environment to be around 5.5% in 2017E, or close to RMB105m. However, the EBT contribution from Derun will reach 11.0%, or RMB228m in 2018E when Deurn starts to contribute profit on a full-year basis.

Chongqing Water Group

Chongqing Water Group mainly operates a sewage treatment business, tap water distribution and engineering construction in Chongqing. Chongqing Water generated revenue of about RMB4.454bn in FY2016, which was flat compared to FY2015. However, net profit attributable to shareholders was down 31% YoY to RMB1.068bn in FY2016. Management of Chongqing Water Group explained that this was mainly due to VAT charges of RMB570.83m, and that a legal tax refund of 70% was not received when due. Therefore, the income and profit were significantly impacted in 2016 by RMB570.83m.

**Earnings of Chongqing Water
Group in 2016 were affected by one
-off tax issues**

However, in the 2016 Annual Report dated 31 Mar 2017, management of Chongqing Water Group mentioned that the company had received the tax refund from the government, and they expected the net profit in 2017E to increase by RMB356.76m because of the refund.

Figure 14: Financial Performance of Derun Environment

RMB million	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
Revenue	3,775	3,969	4,000	4,137	4,488	4,454
Operating Costs	(2,009)	(2,082)	(1,989)	(2,269)	(2,453)	(2,780)
Operating Profit	1,468	1,724	1,745	1,254	1,369	873
Net Profit Attributable to Shareholders	1,609	1,889	1,877	1,450	1,552	1,068

Source: Capital IQ, CGIS Research

San Feng Environment



Source: Company

Chongqing Sanfeng Environmental Industrial Group was established on December 4, 2009. It provides full chain services in the WTE industry, including project investment, construction, operation, and the supply of equipment. It also engages in EPC of WTE power plants, power generation technology, the supply of core equipment and waste water/gas EPC, and operation. In 2015, Sanfeng achieved revenue of approximately RMB2.166bn and net profit of approximately RMB237m.

Based on our conversation with SZE management, the growth of San Feng Environment should be higher than that of Chongqing Water and may become the main growth engine of Derun Environment.

Investment in the Bank of Guizhou



Source: Company

As part of its business diversification and associated business from entrusted management, SZE has been engaged in land development in Guizhou. As it has a good relationship with the Guizhou Municipal Government, SZE increased its investment in Guizhou by subscribing to shares of the Bank of Guizhou in late 2015 and March 2016. According to the latest public information, SZE holds a 4.41% stake of the Bank, for a total investment cost of RMB664.6m. Since then, Bank of Guizhou has contributed a significant profit to SZE through investment income, as it accounted for 6.3% of EBT in 2016.

Currently, SZE continues to hold 4.41% of the total shares of the Bank of Guizhou. The bank was set up in December 2012 with major shareholders including key government bodies and SOEs, such as the Guizhou Provincial Finance Bureau, Gui'an New District Development and Investment Co. Ltd., and China Kweichow Moutai Winery (Group). SZE has benefited from the stable dividend payout from the Bank of Guizhou so far, with its income reaching RMB101.5 million in 2016. The dividend payout for the Bank should remain stable, according to SZE management. Since the initial investment in the Bank of Guizhou was only RMB664.6m, the 2016 dividend return implies 15.3% ROI. We believe the investment is supportive to SZE on both a short- and long-term basis.

Financials

Given SZE's strong asset portfolio and diversified investments, we expect SZE's revenue to continue to maintain stable growth in the years to come. It should be noted that in our baseline analysis, we assume the Shenzhen Government will continue to purchase services from SZE for the Three Projects ("Option 1"), so there will be no major changes in the income and asset structure.

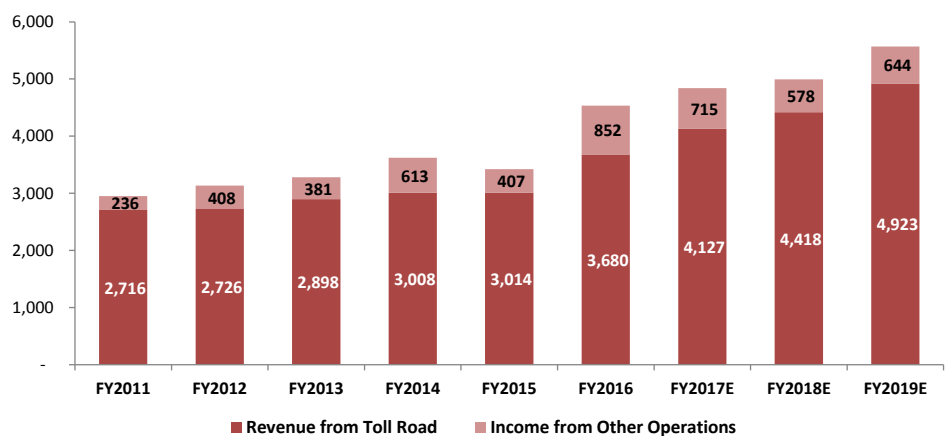
Revenue Boosted by New Toll Roads

Although SZE has been diversifying its business into entrusted management and property development, toll road income from the assets it owns is still the major source of revenue and accounted for more than 80% of revenue in 2016. We expect the percentage of revenue from its toll road business to revert to a higher level mainly due to a higher contribution from new toll roads acquired.

Toll revenue in 2016 was strengthened by acquisitions

Looking back over previous years, we note that its toll road revenue has been steadily increasing. The Company has been expanding its toll road portfolio continuously, and there have been only occasional asset disposals when the Shenzhen Government bought back the toll roads. Notably, total income in 2016 significantly increased 32.5% YoY to RMB4.53bn, with toll road revenue increasing by 22.1% to RMB3.68bn. This was boosted by the increased contribution from Shuiguan Expressway, in which SZE increased its investment to 50% in October 2015.

Figure 15: Revenue Breakdown of SZE: Growing at 7.1% CAGR between 2016 and 2019E



Source: Company, CGIS Research estimates

...and we expect acquisitions to continue to support revenue growth

Going forward, we expect toll road revenue to grow at a CAGR of 7.1% between 2016 and 2019E. As mentioned previously, the revenue should be boosted by the new projects: Yichang Expressway in 2017E and Shenzhen Outer Ring Expressway in 2019E.

Meanwhile, we expect the revenue contribution from other business to remain steady. In addition to the traditional entrusted management business, other revenue will be supported by property sales in Guizhou. SZE secured a land parcel of 1.66m sq.m. in Guilong, Guizhou for a consideration of RMB837m. The land parcel has been developed as a villa project, named Shenzhen Expressway Interlaken Town. Taking into consideration the sales and booking schedule, we expect it to temporarily increase SZE's revenue in 2017E slightly and revert to a lower level in 2018E.

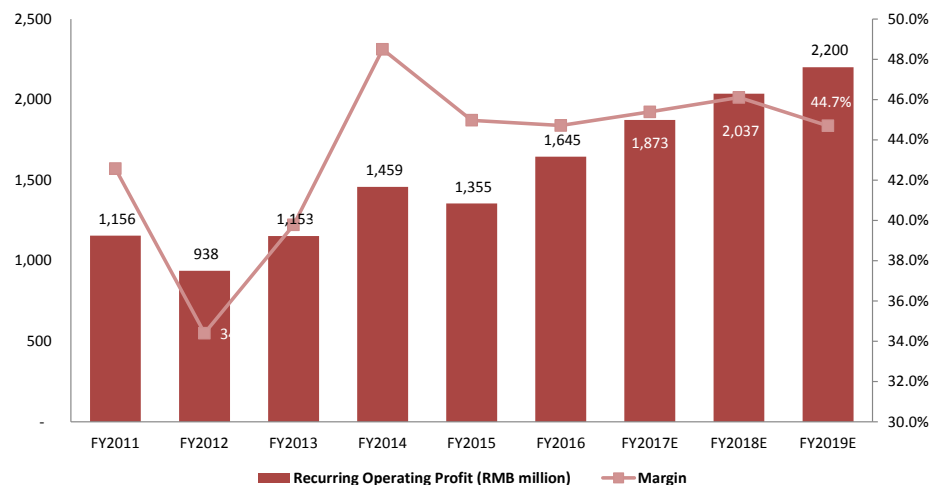
Profit Supplemented by Environmental Business

While SZE's top-line growth is well-supported by additional projects, we believe the underlying profit growth is even stronger. Other than the new projects consolidated in the income statement (i.e., Yichang Expressway and Shenzhen Outer Ring Expressway), we believe there are two important but less obvious factors contributing to higher profit growth:

(1) **Higher profit contribution from Wuhuang Expressway.** SZE's stake in this toll road increased from 55% to 100% in December 2016, so the profit contribution will be proportionally increased, instead of being shared by minority shareholders

(2) **Derun Environment will start to contribute more profit to the Company.** Currently, we prudently forecast the growth in profit contribution from Derun Environment will remain in the high single digits, given that San Feng Environment's business may compensate for the bumpy performance of Chongqing Water Group.

Figure 16: Recurring Operating Profit Should Grow Steadily

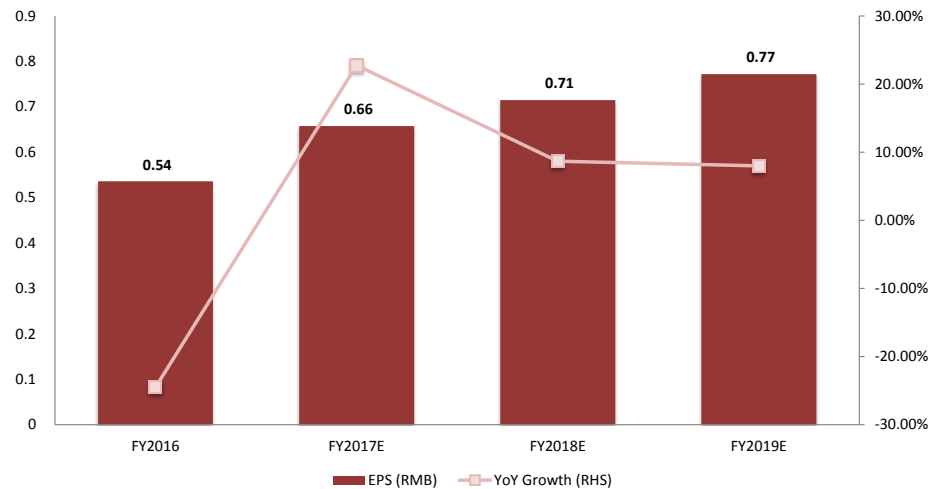


Source: CGIS Research estimates

22.7% EPS YoY growth in 2017E expected

We therefore expect EPS for SZE will reach RMB0.65 in 2017E, implying a 22.7% YoY growth, as 2017E will experience most positive factors. EPS growth in subsequent years should remain at high single digit in 2018E and 2019E.

Figure 17: EPS Growth Reverts to A More Normal Level



Source: CGIS Research estimates

Our baseline forecast still has potential upside

Our current baseline forecast does not take into consideration of two scenarios providing additional upside:

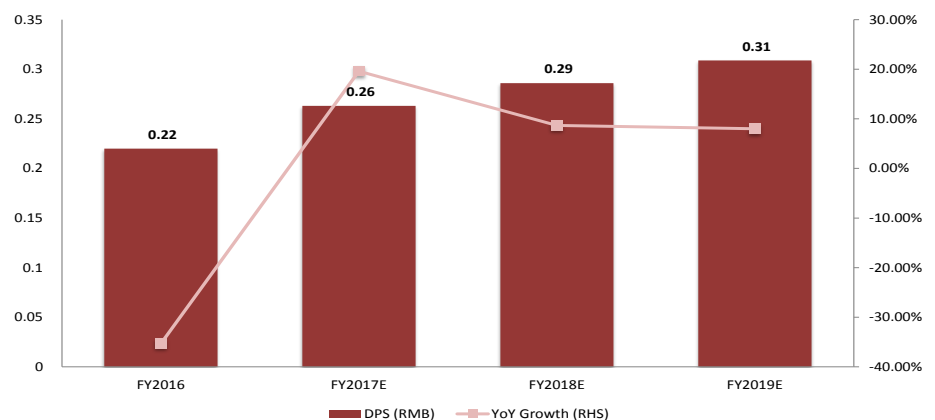
(1) **Disposal of Meilin Checkpoint Project.** According to our analysis, if we assume the Meilin Checkpoint Project is valued at an ASP of RMB75,000/sq.m, and SZE could sell all of its stake on the project, the profit attributable to SZE will be RMB7,282m. However, we note that the timing and the method of monetizing the project is highly uncertain at this stage, so we do not incorporate the contribution from this project in our baseline analysis. However, we do have considered the value of Meilin Checkpoint Project in our valuation (please refer to the valuation section)

(2) **Shenzhen Government may take back Three Projects entirely ("Option 2").** SZE has been offered two options in relation to the repurchase of Three Projects (Nanguang Expressway, Yanpai Expressway and Yanba Expressway). When the option of outright repurchase is taken, we expect a RMB1.6bn disposal gain in 2019E, which translates into RMB0.87 or HK\$1.00 per share.

Dividend: Growing with Potential Upside

Similar to EPS, we expect dividend payout of SZE will grow at a moderate rate from 2017E and 2019E. SZE has been keeping its dividend payout ratio at around 40% in the past years. We believe it is reasonable for the Company to maintain at this level to balance between shareholders' interest and retaining cash for acquisitions

Figure 18: DPS, Excluding Potential Special Dividend, Should Maintain Growth



Source: CGIS Research estimates

Balance Sheet Gears Up Again, But Is Still Healthy

SZE has benefited from the large sum of cash compensation in 2015 and 2016, so cash position has been significantly increased. Net debt to equity ratio dropped from 50.31% in 2014 to 2.05% in 2015, and then bounced back to 9.82% in 2016. We expect the gearing ratio will jump up to above 30% in 2017E as SZE has to fund its acquisition, as well as its construction for Outer Ring Expressway, but it will gradually come down

Figure 19: Net Debt to Equity Ratio of SZE



Source: CGIS Research estimates

Capex: Peak in 2017E, then Gradually Slowing Down

As SZE aims to diversify and strengthen its portfolio, we expect capex to be relatively high in 2017E and forward. However, the peak should be in 2017E, when SZE utilizes its cash compensation to invest in various projects. Most notably, the investment in Derun Environment cost SZE RMB4.4bn. Also, the construction of Outer Ring Expressway should require continuous capex amounting RMB4.423bn in total.

Figure 20: Capex Schedule for 2017E-2019E

(RMB 'million)	2016A	2017E	2018E	2019E	Total (2017E-2019E)
Investment in intangible assets and fixed assets					
Section A of Outer Ring	300.6	831.1	1,648.5	1,943.5	4,423.1
Completed projects	15.4	147.3	26.1	3.7	177.2
PP&E and others	66	132.2	-	-	132.2
Sub-total	382	1,110.7	1,674.6	1,947.2	4,732.5
Equity investments					
Meilin Checkpoint Project (United Land Company)	1,896.30				
Bank of Guizhou	68.6				
Guangdong UETC	13.3				
Wuhang Expressway (JEL Company)	453.5				
Fameluxe Investment	20.2				
Yichang Project	-	1,270.0			1,270.0
Derun Environment		4,408.6			4,408.6
Sub-total	2,452	5,678.6			5,678.6
Total Capex	2,834	6,789.3	1,674.6	1,947.2	6,002.5

Source: Company, CGIS Research

After the completion of Outer Ring Expressway, capex may drop significantly in FY2020E according to the existing schedule, but we expect SZE to consider more asset acquisitions when that time comes.

Risks

Toll Road: Traffic Volume

Traffic volume of the toll roads is essential to the performance of SZE, and the performance of the new assets acquired or constructed do not have a track record. The official projections of traffic volume may deviate from reality. Meanwhile, the traffic volume of existing toll road projects may be affected by new toll roads opening nearby, or unexpected accidents and maintenance.

Meilin Checkpoint Project: Uncertainty on Execution

While the Project is likely to bring substantial benefits to SZE, there is still uncertainty about the execution of the Project. Since Shenzhen is under a strict tightening policy to cool down the real estate market, there may be a risk to the ASP of its development properties. There is also the risk of SZE failing to secure a reliable partner in developing the Project.

Toll Road: Uncertainty on Policy

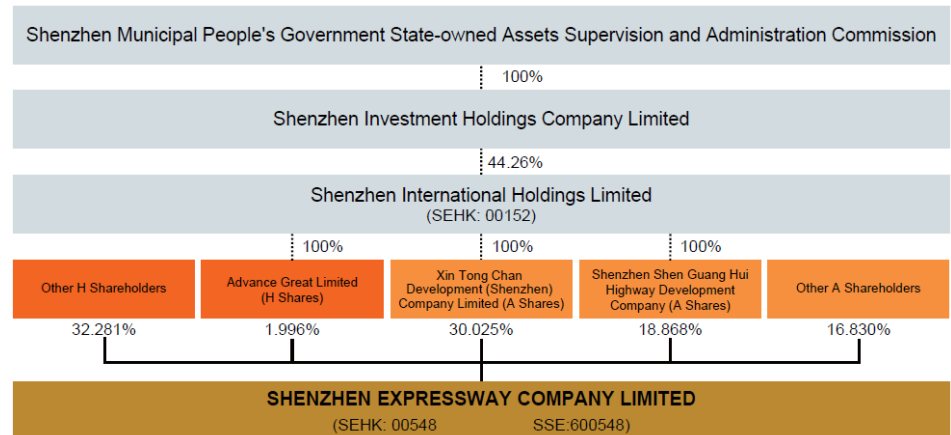
The Ministry of Transport is reviewing The Regulations on the Administration of Toll Roads, and the new policy amendments may hurt the interests of toll road operators. Currently, the market expects the new laws to compensate the operators if more toll-free policies are implemented or expects the operators' operating rights to be extended if they upgrade their toll roads. The uncertainty regarding policy may pose a risk to the long-term profitability of operators and their perception by investors.

RMB: Impact on Dividends and Valuation

Since the functioning currency of SZE is the RMB, and the Company pays out dividends in RMB, the depreciation of the RMB could impact the valuation of the Company. Specifically, given the stable business nature of the Company, and the large chunk of the value that comes from its dividend, a large depreciation in the RMB could impact the valuation of SZE significantly.

Appendix

Figure 21: Shareholding Structure of SZE



Source: Company

Key Management

HU Wei, Chairman. Mr. Hu, born in 1962, holds the qualification of Senior Economist. He obtained a bachelor's degree from the Changsha Railway Institute (now known as Central South University) majoring in English, and obtained a master's degree from the University of South Australia, majoring in risk management. He has extensive experience in corporate operations, corporate management, including investment, financing, capital operations, auditing and risk management, and in overseas enterprises. Mr. Hu worked in China Everbright Bank from June 2001 to August 2011, where he was successively the deputy general manager, general manager of a branch office, general manager of the corporate business department of the Shenzhen Branch, and finally deputy director of the southern audit center at headquarters. Mr. Hu joined Shenzhen International Holdings Limited in August 2011 as a vice president, and he is also a director/the chairman of some unlisted subsidiaries or investee companies of Shenzhen International, including Xin Tong Chan Development (Shenzhen) Company Limited.

WU Ya De Executive Director, President. Mr. Wu, born in 1964, holds the qualification of Senior Political Officer. He obtained a bachelor's degree from the Administration Institute of Guangdong Province, majoring in economic management, and he obtained a postgraduate certificate from the Guangdong Province Social Science Institute, majoring in Economy. He has extensive experience in toll highway management and investment, as well as corporate management. Mr. Wu was successively a director, the general manager, and the chairman of SGH Company from November 1996 to January 2002. He was the Acting General Manager, General Manager and President of the Company, starting in January 2002. He has been a Director of the Company since January 1997, and currently is the executive Director and President of the Company.

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